CEAPRO INC.

1997 ANNUAL REPORT

Table of Contents

President's Message to Shareholders
Management's Discussion and Analysis of Financial Condition and Results of Operations 5
Auditors' Report 7
Consolidated Balance Sheets 8
Consolidated Statements of Loss and Deficit 9
Consolidated Statements of Changes in Financial Position 10
History and Nature of Operations 11
Basis of Presentation 11
Significant Accounting Policies 12
Acquisitions 14
Accounts Receivable 15
Long-Term Investments and Receivables 15
Fixed Assets 17
Patents, Licences and Other Intangibles 18
Bank Indebtedness 18
Loans and Advances Payable 18
Long-Term Debt 19
Class B Preferred Shares of Subsidiary 20
Commitments 21
Contingent Liabilities 21
Share Capital 22
Sales 23
Related Party Transactions 23
Income Taxes 23
Supplementary Financial Information 24
Subsequent Events 25

Ceapro Inc. 1997 Annual Report

Fellow Shareholders:

1997 began on a very positive note. We had completed our various amalgamations, reduced overall administrative costs, and worked towards completing our first public financing. Our initial goal was to raise \$20.0M; but as time passed and the capital markets changed, we altered our expectations and attempted to raise \$10.0M-\$15.0M. However, even our lower amount was unsuccessful. Although there are many opinions about the reasons we were unsuccessful, one reality exists. Very few biotech financings were completed during 1997 right across North America. Generally the biotech and small cap markets have suffered compared to the large cap markets which continue to set new records.

The lack of financial resources significantly slowed the development of the Company. On a positive note, we were forced to make additional cost reductions and all of the Officers of the Company volunteered pay cuts in exchange for shares of the Company. On a negative note, capital expenditures to improve process and quality had to be deferred, planned trials for the Diabetes Screening Product had to be deferred, and management attention was directed to raising financing. By the end of 1997, we had completed some small private placements and some additional debt financing. However, the overall financial position of the Company was precarious and every effort was being put forth to raise new capital. At this time, we had gained the agreement of SGGF (Saskatchewan Government Growth Fund) to convert their holdings in Canamino preferred shares into Ceapro common shares, provided we were able to raise approximately \$5.5M of new capital. So our task was clear: we must raise this money to move the Company forward.

On March 30, 1998, we received official notification from SGGF that they were exercising their remedy on default by seeking control of the Board of Canamino and on May 4, 1998, control of Canamino was assumed by SGGF. The net effect of this occurrence is that Ceapro ceases to be responsible for approximately \$9.6M of debt and ceases to be responsible for the continuous operating cash requirements of Canamino. In addition to the \$9.6M of debt in Canamino, Ceapro has advanced Canamino by way of shareholder loan, a total of \$4.5M. Currently Ceapro is negotiating both a supply agreement and a licensing agreement with Canamino. Both of these agreements are critical to Ceapro and to Canamino. Ceapro owns or has the rights to certain technologies which are essential to Canamino while at the same time Ceapro is developing new markets for oat extracts which will enhance the volume of throughput for Canamino. Canamino must present a plan of arrangement to its unsecured creditors prior to August 31, 1998 and in conjunction with this activity will be pursuing additional strategic partners.

Personal Care

During 1997 the Company continued to commence new development projects with new customers. The development cycles for these projects are 12-18 months. By December 31, 1997, approximately 20 development projects were in existence. What has been difficult to determine is the potential volume of business arising out of each of these projects. Clearly, we are still very much in the position of having to prove ourselves with many customers. During the year, we completed third party efficacy work on our Arriveen, beta glucan, and oat protein.

In each case, the efficacy results were outstanding thereby providing us with the selling proposition of being a natural product with very high efficacy.

On the negative side, we continued to experience inconsistency and instability in some of our extracts under certain conditions. It is clearly evident that we continue to learn about the behavior of our natural extracts, which, although a negative in the short term, is providing us with more insight into the capabilities and uses of our extracts. Despite the lack of financial resources, the creativity, ingenuity, and determination of our small contingent of people has provided us with solutions to these problems.

During the year, much of the groundwork was completed for the finalization of distribution agreements in the U.K., Germany, France, Korea, Australia, and Japan. These agreements were concluded in early 1998 and we now expect development work to take place during 1998 in each of the geographies. We are very proud of having been able to attract high quality and experienced distribution organizations in each of the geographies. The efficacy of our extracts attracted these distribution organizations to us.

Animal Health

During 1997 we completed a clinical trial of our Animal Coat Wash, in Canada and achieved excellent results. We are continuing to seek a number of partners to market the product worldwide and we are confident that we will achieve the expected results.

Our progress in Japan has also been much slower than we anticipated. Our partner, Daisen Sangyo, had been working with a major Animal Health Company in Japan, who also performed clinical trials of our product achieving similar results as we had achieved in Canada. By the end of 1997, no definitive agreement or commitments had been accomplished in Japan. However, during April 1998, Daisen Sangyo and Nippon Zenyaku did conclude a long-term agreement for the distribution and sales of Dr. Redmond's Animal Coat Wash. Ceapro received the first purchase order for approximately 46,000 units of Coat Wash, which was shipped during June 1998. The official launch of the product is scheduled for August 4, 1998.

Diabetes Screening Product

During the summer of 1997, we completed a major document which was used as the foundation for future presentations. Board members, Dr. Dennis Modry and Carol Palmason spearheaded the development of this document. In late August, we made a presentation to an international pharmaceutical company and we have been in constant dialogue with them since that time. We also commenced the process of seeking out manufacturing facilities to produce the DSP. However, scarce cash resources caused us to scale back activity in this area significantly. A major milestone event was the approval by Health Protection Branch (HPB) for the sale of the product in Canada as a medical device. Two peer reviewed articles were published in Diabetes Care and European Journal of Clinical Nutrition.

The rampant growth of diabetes around the globe provides a very large opportunity for the DSP, particularly as a screening device. Current practices in the detection of diabetes usually cause individuals to have diabetes for as long as 10 years before it is detected. The use of the DSP, due to its sensitivity and accuracy, allows for the very early detection of diabetes as well as impaired glucose tolerance which may be a precursor to diabetes.

In order to achieve a licensing agreement, it has become clear to us that time and patience are required. However, we are told that the science supporting our product is sound and that the significant threat of the diabetes epidemic will enable us to conclude an agreement with a major pharmaceutical company.

The Future

Ceapro is employing three broad strategies in moving forward, namely:

- Products to market
- Commercialize new technologies
- Maximize return from Canamino

Products to Market

<u>Diabetes Screening Product</u>

The Diabetes Screening Product is a priority as it represents a major opportunity for the Company. Diabetes is becoming a disease of epidemic proportion and as such we expect prevention and intervention

to be a significant focus of health care providers. It is estimated that diabetes and diabetes related illnesses in North America alone represent direct and indirect costs of in excess of U.S. $120 billion per year. In a Kaiser Permanente study, it is estimated that U.S. $62 billion annually could be saved through the employment of strategies that prevent glucose intolerance related illnesses.

The DSP is capable of detecting impaired glucose tolerance with significantly greater accuracy than any other product currently in existence. In addition, the time required for a test utilizing the DSP is one hour compared to two hours with the oral glucose tolerance test.

Once the DSP is introduced to the market, its utility will be broadened as it gains credibility and awareness.

Companion Animal Dermal System

Ceapro has commenced shipments of its companion animal products to Japan after clinical trials were conducted both in Canada and Japan. A family of four products are in varying stages of development with the primary product, coat wash, being commercialized. The company is nearing the completion of an "ear cleanser" and has in development a "hot spot spray" and an "essential oils" product.

The company is continuing to pursue partnerships in Europe and North America for the distribution and marketing of these products.

Trial results of the coat wash product were extremely positive confirming results of efficacy trials completed for each of the oat extracts that form the foundation of the products. The family of products that have been developed and are being developed, form a complete system for both the treatment of skin problems and the maintenance of companion animal skin and coat.

International Personal Care

Ceapro has completed key distribution agreements with well established distribution companies in major geographies around the world.

As we have learned in North America, the development cycle is twelve to eighteen months. Our distributors have initiated projects with a number of personal care companies and we expect to see some results during the latter part of 1998. Provided we can conclude a satisfactory supply agreement with Canamino, we expect to gain momentum in this area through the early part of 1999. The efficacy trials that were completed on the oat extracts during 1997 provide a solid basis for future development. The combination of high efficacy natural extracts and excellent distributors will result in positive business development.

Nutraceuticals

Over the past year, a significant amount of work was completed concerning high beta glucan bran. Although there appears to be significant interest as a result of the FDA approvals, we continually faced the issue of the Canamino plant capacity and cost in order to be accepted into a large national food brand. A better strategy in the short and intermediate term is to enter the health food market. The health food market is a higher margin market and is demonstrating significant growth. Entry into this market will create credibility for the oat extracts and will be of a magnitude that does not create capacity problems for Canamino. Ceapro plans to initiate clinical trials for two or three extracts, sufficient to demonstrate efficacy for a particular end use. We believe that these trials will confirm the scientific evidence that currently is in existence. Entry into the high margin niche category will provide Ceapro with the opportunity to, at a later date, enter the mainstream market provided the economics are such as to establish a viable business.

Dermal Licensed Products

The efficacy data achieved in the oat extract work, together with the work completed and still being performed on the companion animal system of products, provides Ceapro with the capability to create highly effective human dermal products. It is Ceapro's plan to develop a platform of products for licensing to marketers of dermal products. This strategy will be initiated once the Diabetes Screening Product and companion animal system products have been completely commercialized.

Maximize Return From Canamino

Ceapro currently owns 100% of the common shares of Canamino Inc., representing an investment of $14.2M. After reflecting losses incurred by Canamino, the investment has been restated to $1,780,000. In addition, Ceapro has advanced $4.5M to Canamino.

Although Saskatchewan Government Growth Fund ("SGGF") control the Board of Canamino, it is of paramount interest to Ceapro to ensure the long term viability of Canamino. Canamino will be seeking financial and/or strategic partners to invest in the business and further develop the business.

Commercialize New Technologies

Ceapro has developed new technologies related to the fractionation of cereal grains. These technologies are capable of producing pure and very powerful oat fractions while the yield is significantly greater than any other technologies. These new generations of oat actives will accelerate the development of new products in the dermal, pharmaceutical, and nutraceutical markets and present a major growth opportunity for Ceapro.

Since the yield factor is very high, the scale of production facility required is relatively small, particularly in comparison to a plant capable of supplying the food market.

Summary

1997 was a difficult year for Ceapro. The inability to complete a financing represented the major problem for Ceapro. The strong support of the Board, the shareholders, the management, and all of the employees allowed us to work through all of the issues.

In spite of the difficulties, we accomplished many significant milestones and we now look forward with a high degree of optimism towards the future. Ceapro's technology base is excellent and we are now poised to capitalize on the technology with products to the marketplace.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The financial statements have been prepared in accordance with generally accepted accounting principles. The comparatives for 1996 represent the operations of Ceapro Developments Inc., while the figures for 1997 represent operations for Ceapro Inc. Ceapro Developments Inc. amalgamated with Vexco Healthcare Inc. on January 1, 1997 to form Ceapro Inc.

Accounting Treatment

The balance sheet for 1997 represents the assets and liabilities of Ceapro Inc. The statements of loss and deficit and statement of changes in financial position are consolidated statements to include Canamino Inc. Canamino issued a class of preferred, non-voting (Class B) shares. The subscription agreement for these shares provided a remedy to assume 51% of the total voting entitlement of Canamino Inc exercisable under certain circumstances including non-payment of dividends or failure to redeem the Class B shares per schedule. The Class B preferred shareholders exercised this remedy which resulted in an effective loss of control of Canamino. Since Ceapro Inc. had control of Canamino during all of 1997, it has accounted for the operations and changes in financial position of Canamino on a consolidated basis but has deconsolidated the assets and liabilities effective December 31, 1997.

During the six months ended December 31, 1996, Ceapro increased its investment in Canamino to 83%, but only gained voting control of Canamino on October 11, 1996. Accordingly, Canamino's activities were accounted for on an equity basis from July 1 to October 11, 1996 and on a consolidated basis from October 12 to December 31, 1996. Vexco continued to be accounted for on an equity basis for the entire period. During the twelve months ended December 31, 1997 Ceapro increased its investment in Canamino Inc. to 100%.

Sales and Gross Margin

Sales for the year ended December 31, 1997 amounted to approximately $2,335,000, with a gross margin of $482,000(21%). Sales for the six months ended December 31, 1996 amounted to approximately $560,000 with a gross margin of $43,000(8%). Gross margin improved over 1996 due to the increase in sales volume, economies of scale, improved efficiencies and varying product mix. Canamino Inc. only began commercial production in April 1996.

Expenses

Expenses for the year ended December 31, 1997 of $20,184,000 the major component of which was the write-down of patents, licenses and other intangibles of $9,854,000. The Corporation reviewed the carrying value of certain intangible assets by comparing expected future operating cash flows to the unamortized values of such assets. Goodwill on the purchase of the minority interest in Canamino was written off in full due to the loss of voting control over Canamino and goodwill on the purchase of Vexco Healthcare Inc. was written down due to the anticipated longer commercialization time line.

Operating expenses for the twelve months ended December 31, 1997 increased over the six month period to December 31, 1996, due to: the 1996 statements were not consolidated statements until October 12, 1996 whereas the amounts for the year ended December 31, 1997 were consolidated and reflect a full year of activity. Most of the increases were one time expenditures incurred as a result of the amalgamation and in part to the accounting treatment where Canamino Inc. and Vexco Healthcare Inc. expenses were included for the year ended December 31, 1997, but were disclosed separately as share of net losses of $994,773 and $484,357 for Canamino Inc. and Vexco Healthcare Inc. respectively for the year ended December 31, 1996; Activity levels increased in sales and market development, product development and research, as well as the financing costs which were expenses relating to the public offering which was not completed.

Liquidity and Capital Resources

Ceapro Inc. has relied on external financing to fund operating losses and strategic acquisitions. In the year ended December 31, 1997 Ceapro Inc. raised approximately $4,615,000 through the issue of special warrants and shares. The working capital deficiency increased by $900,000 due to the inability to complete the public offering. The remedy the Company pursued was to file a Plan of Arrangement under the Company's Creditors Arrangement Act in February 1998. This plan was approved by the unsecured creditors in March 1998. The plan will pay out the creditors in the form of 1/3 cash and 2/3 shares. The Company is currently in the process of getting regulatory approval with respect to the share issuance.

Year 2000 Compliance

Ceapro Inc. has conducted an assessment of its Year 2000 vulnerability and dependence on information systems and concluded that Ceapro Inc. is not in a vulnerable position with respect to Year 2000 compliance. Ceapro Inc. does not have a complex information system and most of the software and hardware used are already year 2000 compliant. The cost to upgrade computer hardware and software to Year 2000 readiness will be approximately $12,000. Ceapro Inc. also does not feel that they will be adversely affected by Year 2000 vulnerability of its major suppliers.

AUDITORS' REPORT

To the Shareholders of
Ceapro Inc.

We have audited the consolidated balance sheets of **Ceapro Inc.** as at December 31, 1997 and 1996 and the consolidated statements of loss and deficit and changes in financial position for the year ended December 31, 1997, the six months ended December 31, 1996 and the year ended June 30, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the year ended December 31, 1997, the six months ended December 31, 1996 and the year ended June 30, 1996 in accordance with generally accepted accounting principles.

Ernst & Young

Chartered Accountants

Edmonton, Canada
February 26, 1998 (except for note 20,
which is as at May 26, 1998)

Ceapro Inc.

CONSOLIDATED BALANCE SHEETS

(see note 2 - Basis of Presentation)

As at December 31,

	1997 $	1996 $
ASSETS		
Current		
Cash	**18,043**	1,013,710
Accounts receivable *[note 5]*	**225,815**	1,154,929
Inventories	**3,895**	1,099,301
Prepaid expenses	**77,154**	41,086
	324,907	3,309,026
Long-term investments and receivables *[note 6]*	**6,612,598**	972,940
Fixed assets *[note 7]*	**171,236**	8,265,710
Patents, licences and other intangibles *[note 8]*	**5,978,901**	6,023,218
	13,087,642	18,570,894
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 9]*	—	1,099,078
Accounts payable and accrued liabilities	**2,342,914**	1,501,880
Loans and advances payable *[note 10]*	—	324,010
Current portion of long-term debt *[note 11]*	**1,072,660**	1,295,438
Current portion of Class B preferred shares of subsidiary *[note 12]*	—	1,250,000
	3,415,574	5,470,406
Long-term debt *[note 11]*	**260,400**	3,382,921
Class B preferred shares of subsidiary *[note 12]*	—	1,750,000
	3,675,974	10,603,327
Commitments *[note 13]*		
Contingent liabilities *[note 14]*		
Shareholders' equity		
Share capital *[note 15]*	**40,087,472**	18,850,155
Deficit	**(30,675,804)**	(10,882,588)
	9,411,668	7,967,567
	13,087,642	18,570,894

See accompanying notes

On behalf of the Board:

(Signed Neil W. W. Gilliat)
Neil W. W. Gilliat, Director

(Signed Robert A. Binnendyk)
Robert A. Binnendyk, Director

Ceapro Inc.

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

(see note 2 - Basis of Presentation)

Period ended

	December 31. 1997 $ (12 months)	December 31. 1996 $ (6 months)	June 30, 1996 $ (12 months)
REVENUE			
Sales *[note 16]*	**2,335,066**	559,543	–
Cost of goods sold	**1,853,311**	516,666	–
Gross margin	**481,755**	42,877	–
EXPENSES			
Advertising, promotion and marketing	**1,272,010**	128,116	58,137
Amortization of fixed assets	**1,182,261**	243,840	3,387
Amortization of patents, licenses and other intangibles	**1,028,315**	65,700	–
Dividends on Class B preferred shares of subsidiary *[note 12]*	**564,088**	75,807	–
Financing charges	**723,928**	–	50,429
General and administrative	**1,529,284**	1,231,989	996,039
Interest on long-term obligations	**224,835**	39,099	–
Interest on short-term obligations	**91,175**	35,275	284,139
Operations and quality control	**879,774**	213,358	–
Professional fees	**363,474**	177,275	480,059
Research	**2,271,718**	143,972	169,444
Restructuring and relocation	**199,245**	–	–
Write-down of patents, licenses and other intangibles *[note 8]*	**9,854,169**	–	–
	20,184,276	2,354,431	2,041,634
Loss before the following	**(19,702,521)**	(2,311,554)	(2,041,634)
Other income (loss)	**(90,695)**	83,411	102,870
Share of net loss of Canamino Inc.	–	(994,773)	(2,993,291)
Share of net loss of Vexco Healthcare Inc.	–	(484,357)	(593,091)
Loss before non-controlling interest	**(19,793,216)**	(3,707,273)	(5,525,146)
Non-controlling interest	–	12,279	37,721
Net loss for the period	**(19,793,216)**	(3,694,994)	(5,487,425)
Deficit, beginning of period	**(10,882,588)**	(7,187,594)	(1,700,169)
Deficit, end of period	**(30,675,804)**	(10,882,588)	(7,187,594)
Net loss per share	**(1.27)**	(0.40)	(1.04)

See accompanying notes

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(see note 2 - Basis of Presentation)

Period ended

	December 31. 1997 $	December 31. 1996 $	June 30, 1996 $
	(12 months)	(6 months)	(12 months)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Net loss for the period	**(19,793,216)**	(3,694,994)	(5,487,425)
Add (deduct) charges to operations not requiring a current cash payment:			
Amortization	**2,210,576**	309,540	3,387
Write-off of patents, licences and other intangibles	**9,854,169**	–	–
Share of net loss of Canamino Inc.	–	994,773	2,993,291
Share of net loss of Vexco Healthcare Inc.	–	484,357	593,091
Accrued redemption premium on Class B preferred shares of subsidiary	**300,000**	–	–
Other	**189,860**	(182,780)	(37,721)
	(7,238,611)	(2,089,104)	(1,935,377)
Net change in non-cash working capital items relating to operations	**2,721,977**	204,240	324,744
	(4,516,634)	(1,884,864)	(1,610,633)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES			
Investments and receivables:			
Vexco Healthcare Inc. *[note 4]*	**(13,837,355)**	(855,262)	(795,126)
Minerva Animal Health Corporation *[note 4]*	–	(1,137,250)	(200,000)
Canamino Inc. *[note 6]*	**(2,706,604)**	(4,022,732)	(4,668,709)
Loan to employee	–	(250,000)	–
Increase in capital assets	**(990,019)**	(191,678)	(84,598)
Increase in patents, licences and other intangibles	**(553,359)**	(97,673)	(134,356)
	(18,087,337)	(6,554,595)	(5,882,789)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			
Decrease in loans and advances payable	**(324,010)**	(1,210,236)	(595,427)
Increase (decrease) in long-term debt	**710,584**	(125,512)	–
Redemption of Class B preferred shares of subsidiary	–	(250,000)	–
Issue of share capital of subsidiary	**163,918**	–	–
Share capital	**21,237,317**	9,231,457	8,799,705
	21,787,809	7,645,709	8,204,278
Increase (decrease) in cash during the period	**(816,162)**	(793,750)	710,856
Deconsolidation of Canamino Inc. ***[note 6]***	**919,573**	–	–
(Bank indebtedness), net of cash beginning of period	**(85,368)**	708,382	(2,474)
(Bank indebtedness), net of cash, end of period	**18,043**	(85,368)	708,382
Operating cash flow per share	**(0.29)**	(0.20)	(0.31)

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. HISTORY AND NATURE OF OPERATIONS

Ceapro Inc. ("the Company") is incorporated under the Business Corporations Act of Alberta. The Company's primary business activities relate to the development of various innovative life sciences products and processes relating to oat fractionation technology.

The Company was formed through the amalgamation of its predecessor companies, Ceapro Developments Inc. ("Developments") and Vexco Healthcare Inc. ("Vexco"). The amalgamation was pursuant to a Plan of Arrangement under the Alberta Business Corporations Act and received approval of the shareholders of both companies in December 1996.

Development's initial investment in Vexco was made in July 1995 pursuant to a share acquisition agreement under which Developments agreed to pay Vexco $150,000 and provide Vexco with access to certain technology in exchange for 16,734,500 common shares. During the year ended June 30, 1996, Developments exercised warrants to acquire an additional 1,686,171 common shares. Under the Plan of Arrangement, holders of common shares of Developments received one common share of Ceapro Inc. for every two common shares held and the holders of common shares of Vexco received one common share of Ceapro Inc. for every four and one-half common shares held. The 18,420,671 shares of Vexco owned by Developments were cancelled *[see note 4]*.

The Company held 80% of Minerva Animal Health Care Corporation until November 1, 1996 when it acquired the 20% minority interest. On December 23, 1996 the operations of Minerva were wound up into the Company *[see note 4]*.

The Company holds 100% of the common shares of Canamino Inc. (December 31, 1996 - 83%). The investment in Canamino Inc. was accounted for on an equity basis to October 11, 1996 and consolidated until December 31, 1997 at which time voting control was assumed by Canamino Inc.'s Class B preferred shareholder *[see note 6]*. Effective January 31, 1998, the Company will account for its investment on a cost basis.

Notwithstanding this change of voting control, the success of Canamino will continue to be important to the Company. Canamino uses technology owned by Ceapro as a key component in its operations and the Company is dependent on Canamino as a source of supply for products being sold in international markets. Accordingly, the Company will be proposing licensing and supply agreements with Canamino to formalize these business relationships. Further, the Company will be entering into discussions with Canamino with respect to its continuing role as a shareholder and creditor of Canamino.

2. BASIS OF PRESENTATION

Development stage enterprise

The Company is a development stage enterprise and its ability to successfully realize the carrying value of its assets is dependent upon its ability to arrange and maintain sufficient financing to successfully complete its development activities, commence commercial operations and to attain positive cash flows.

Going Concern

These consolidated financial statements have been prepared on a going concern basis which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

2. BASIS OF PRESENTATION (CONTINUED)

Several conditions and events cast doubt on the going concern assumptions.

a) The Company has experienced significant operating losses and its ability to continue operations is dependent upon achieving profitability or securing additional financing.

b) At December 31, 1997, the Company is in violation of the terms of its debt covenants with the Toronto-Dominion Bank *[see note 11]*.

c) Voting control of its wholly owned subsidiary Canamino Inc. was assumed by the Class B shareholder effective December 31, 1997 due to certain defaults *[see note 6]*. The Company continues to be contingently liable in respect of certain obligations of Canamino *[see note 14]*.

These financial statements do not give effect to adjustments to the amounts and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities and commitments at amounts different from those in the accompanying financial statements.

Measurement Uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during the reported period. By their nature, these estimates are subject to measurement uncertainty and the effect on these and future consolidated financial statements of changes in such estimates could be significant.

Change in fiscal year end

The Company has changed its fiscal year end from June 30 to December 31 effective December 31, 1996, as a result of the amalgamation, on January 1, 1997, with Vexco Healthcare Inc.

3. SIGNIFICANT ACCOUNTING POLICIES

Class B preferred shares of subsidiary

The Class B preferred shares of subsidiary are accounted for as a liability as the issuer is contractually required by the terms of the instrument to settle the instrument in cash upon maturity. Interest and dividends are charged to operations.

Inventories

Inventory of raw materials is valued at the lower of cost and replacement cost with cost being determined on a first-in, first-out basis.

Inventory of work in progress and finished goods is valued at the lower of cost and net realizable value with cost being determined using full absorption costing on a first-in, first-out basis.

Fixed assets

Fixed assets are recorded at cost and are amortized over their estimated useful lives as follows:

Building	2.5%	straight-line
Furniture and equipment	20%	declining balance
Computer equipment	20 - 30%	declining balance
Laboratory and production equipment	20%	straight-line
Leasehold improvements	20 - 25%	straight-line

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patents, licences and other intangibles

Patents, licences and other intangibles are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis over periods ranging from 5 to 20 years commencing the later of the year the patent is granted, licence acquired or commercial production achieved.

The Company continually evaluates whether events and circumstances have occurred that indicate the remaining useful life of patents, licenses and other intangible may warrant revision or that the remaining balance may not be recoverable. The Company uses an estimate of undiscounted operating income and related cash flow over their remaining useful life to determine whether the carrying amounts of these assets are recoverable. If management's assessment or other facts and circumstances pertaining to the recoverability of such assets were to change, the Company would adjust the carrying values as appropriate and charge such costs to operations.

Due to the long-term nature of estimates inherent in determining future cash flows and the useful life of these assets, it is reasonably possible the estimated recoverable amount of these assets could be reduced in the future.

Fair values

In view of conditions which cast doubt on the going concern assumptions *[see note 2]*, the determination of the fair values of financial instruments at December 31, 1997 is not practical.

At December 31, 1996, the fair value of financial instruments was generally determined as follows:

(a) Accounts receivable, accounts payable and accrued liabilities and loans and advances payable are all short term in nature and as such, their carrying value approximates fair value.

(b) The fair value of Class B preferred shares was estimated using discounted cash flows based on current rates of interest.

(c) The fair value of bank loans which float with prime is assumed to be equal to their carrying value.

(d) The fair value of non-interest bearing loans and receivables is estimated using discounted cash flows based on current rates of interest for similar lending arrangements.

Unless otherwise disclosed in the notes to the financial statements, the fair value of an instrument approximates its carrying value.

Foreign currency translation

Revenue and expense transactions have been translated to their Canadian dollar equivalent using the average exchange rate for the period.

Current monetary assets and liabilities are translated to their Canadian dollar equivalent at the rates effective at the balance sheet date.

Foreign exchange gains or losses are recorded in the consolidated statement of loss and deficit.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loss per share

Loss per share is calculated using the monthly weighted average number of shares outstanding during the period. Fully diluted loss per share has not been provided as the effects of the assumed exercise of stock options and warrants described in note 15 are anti-dilutive.

Operating cash flow per share

Operating cash flow per share is calculated using the monthly weighted average number of shares outstanding during the period. Operating cash flow is defined as cash provided by (used in) operating activities.

4. ACQUISITIONS

Vexco Healthcare Inc.

The amalgamation of Ceapro Developments Ltd. and Vexco Healthcare Inc. referred to in note 1 has been accounted for as a purchase thereby requiring the determination of the value of the consideration given. The value of the shares issued to the former Vexco shareholders on January 1, 1997 was determined to be $4.90 per share based primarily on the quoted value of the Vexco shares immediately prior to the amalgamation and the quoted value of the Ceapro Inc. shares subsequent to the amalgamation. However, because of the elements of uncertainty in determining the value of the issued shares, including the lack of an earnings history, lack of trading history for the shares of Ceapro Inc., uncertainty over the timing of future cash flows and the fact that Ceapro Inc. is a development stage enterprise, an exact valuation of these shares could not be made. For accounting purposes, pursuant to regulatory requirements, Ceapro Inc. subsequently adopted, with effect from January 1, 1997, a value of $3.00 per issued share which reflects the most recent issue price of a significant number of the Company's shares for cash preceding the amalgamation.

The effect of this accounting treatment is to record a lesser amount of intangibles and a corresponding reduction to share capital on the balance sheet and reduce the corresponding amortization of intangibles in future accounting periods.

Had an exact valuation been possible, then the value attributed to acquired patents, licenses and other intangibles might have been materially different.

The acquisition is summarized as follows:

	$
Cost of January 1, 1997 acquisition at $4.90 per share	**22,601,014**
Less above reduction	**8,763,659**
Cost of January 1, 1997 acquisition at $3.00 per share	**13,837,355**
Cost of investment, December 31, 1996	**1,632,388**
Less: Equity in losses of Vexco to December 31, 1996	**(1,077,448)**
	14,392,295
Net assets acquired at fair values	
Cash	**133,164**
Working capital	**63,055**
Capital assets	**41,047**
Patents, licenses and other intangibles	**14,323,029**
Due to Ceapro	**(168,000)**
	14,392,295

4. ACQUISITIONS (CONTINUED)

Minerva Animal Health Corporation

On July 1, 1995, the Company acquired an 80% interest in Minerva Animal Health Corporation ("Minerva") for cash consideration of $200,000.

On November 1, 1996, the Company acquired the remaining 20% interest in Minerva for consideration of $1,137,250. The consideration was comprised of 364,083 common shares of the Company at $3 per share plus acquisition costs of $45,000.

The acquisitions have been accounted for using the purchase method and are summarized as follows:

	$
Total cost of acquisitions	**1,337,250**
Net assets acquired at fair values	
Working capital	**88,736**
Patents, licences and other intangibles	**1,298,514**
Long-term debt	**(50,000)**
	1,337,250

On December 23, 1996 the operations of Minerva were wound up into the Company.

On December 31, 1997 the Company further evaluated the carrying value of the patents, licenses and other intangibles acquired from Vexco and Minerva and recorded a write-down of $9,600,463.

5. ACCOUNTS RECEIVABLE

	1997 **$**	**1996** **$**
Trade	**22,220**	435,150
Research and development tax credits	**136,000**	529,300
Employees	**53,799**	–
Goods and services tax	**13,796**	167,789
Other	–	22,690
	225,815	1,154,929

6. LONG-TERM INVESTMENTS AND RECEIVABLES

	1997 **$**	**1996** **$**
Investments		
Canamino Inc. (100%)	**1,779,886**	–
Vexco Healthcare Inc. (47%)	–	554,940
	1,779,886	554,940
Receivables		
Canamino Inc.	**4,582,712**	–
Vexco Healthcare Inc.	–	168,000
Loan to employee	**250,000**	250,000
	4,832,712	418,000
	6,612,598	972,940

6. LONG-TERM INVESTMENTS AND RECEIVABLES (CONTINUED)

At December 31, 1997, the Company owned 100% (December 31, 1996 - 83%) of the equity (Class A common shares) of Canamino Inc. ("Canamino"). During the year ended December 31, 1997, the Company acquired the remaining 17% minority interest of Canamino Inc. on the basis of a share exchange of 676,651 common shares at an agreed value of $4 per share.

The Company initially obtained significant influence over Canamino in October 1993 and acquired 51% of its equity on September 30, 1994.

Canamino has also issued a class of preferred, non-voting (Class B) shares *[see note 12]*. On issue of the Class B shares, the Class B shareholder was granted a remedy to assume 51% of the total voting entitlement attached to the common shares of Canamino, effective under defined conditions including a default in the payment of dividends on the Class B shares. Such a default occurred, and the remedy became exercisable shortly after September 30, 1994. The remedy was exercised by the Class B shareholder on September 5, 1995. On October 11, 1996, Canamino remedied the default by remitting the dividend arrears, plus interest and agreed costs, to the Class B shareholder. The Company reestablished voting control of Canamino at that time.

The Company considered it lost effective control over Canamino when the remedy became exercisable and therefore did not account for its investment on a consolidated basis prior to October 11, 1996. The Company did, however, continue to exercise significant influence over Canamino throughout that period and accordingly accounted for its investment on an equity basis.

On December 31, 1997, the Company again lost effective control over Canamino as a result of the default in the payment of the September 30, 1997 quarterly dividend and the failure to redeem 500,000 Class B preferred shares *[see note 12]*. Since the Company had control of Canamino during all of 1997, it has accounted for the operations and changes in financial position of Canamino on a consolidated basis for the year ended December 31, 1997. The assets and liabilities of Canamino have been deconsolidated effective December 31, 1997.

The Class A common shares of Canamino have been pledged as collateral on Canamino's indebtedness to the Royal Bank *[see note 11]*.

The Company will adopt the cost basis of accounting for its investment effective from January 1, 1998 as it will not control or exercise significant influence over Canamino.

The carrying value of the Company's investment in Canamino at December 31, 1997 is determined as follows:

	$
Total cost of acquisitions	**14,219,702**
Less:	
Losses of Canamino accounted for on an equity basis to October 11, 1996	**(5,174,022)**
Losses of Canamino accounted for on a consolidated basis from October 12, 1996 to December 31, 1996	**(1,173,732)**
Losses of Canamino accounted for on a consolidated basis for the year ended December 31, 1997	**(6,092,062)**
	1,779,886

6. LONG-TERM INVESTMENTS AND RECEIVABLES (CONTINUED)

Receivables

Advances to Canamino are unsecured, bear interest at prime plus 2% and are due on demand following the later of six months from the time the funds are advanced to Canamino and the time Canamino is in a position to repay the advances without being in default to their bank.

On February 27, 1998, the Company and Canamino obtained an order of the Court of Queen's Bench of Alberta pursuant to the Companies Creditors Arrangement Act to facilitate a restructuring of their unsecured debt. On March 2, 1998, the Companies submitted a formal plan of arrangement whereby they proposed to pay their unsecured creditors 100% of the amounts owing in the form of cash as to one third and Class A shares of Ceapro Inc. as to two thirds based on the market price of shares in late February 1998 (i.e. $1.25 per share). On March 25, 1998 the unsecured creditors voted to accept the plan of arrangement. Due to the change in voting control of Canamino and the resulting uncertainties, the plan, as it related to Canamino, was rejected by the Court of Queen's Bench on May 26, 1998. Canamino was authorized and permitted to file with the Court a revised plan of compromise or arrangement between itself and its creditors (including Ceapro Inc.) on or before August 31, 1998.

Accordingly, significant uncertainty exists with respect to the provision (if any) required to reduce the carrying value of the advances to Canamino to their estimated net realizable value.

The advances to Canamino have been postponed in favor of Canamino's indebtedness to the Royal Bank *[see note 11]*.

During the year ended December 31, 1997, the Company charged interest to Canamino in the amount of $161,861.

The loan to employee is non-interest bearing and must be repaid in full on or before September 1, 2001. The estimated fair value of the loan was $203,835 at December 31, 1996.

7. FIXED ASSETS

		1997	
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Furniture and equipment	**137,199**	**28,630**	**108,569**
Computer equipment	**95,046**	**36,140**	**58,906**
Leasehold improvements	**5,333**	**1,572**	**3,761**
	237,578	**66,342**	**171,236**

		1996	
	Cost	**Accumulated Amortization**	**Net Book Value**
	$	**$**	**$**
Building	4,069,180	23,222	4,045,958
Furniture and equipment	93,249	7,818	85,431
Computer equipment	92,373	11,721	80,652
Laboratory and production equipment	4,025,255	196,301	3,828,954
Leasehold improvements	156,897	8,682	148,215
Capital in progress	76,500	—	76,500
	8,513,454	247,744	8,265,710

8. PATENTS, LICENCES AND OTHER INTANGIBLES

	1997 $	1996 $
Net book value, beginning of the period	**6,023,218**	350,271
Add:		
Purchased during the period	**553,359**	97,673
Acquisitions *[note 4]*	**17,029,633**	5,640,974
	23,606,210	6,088,918
Deduct:		
Amortization	**1,028,315**	65,700
Write-downs	**9,854,169**	–
Deconsolidation of Canamino Inc. *[note 6]*	**6,744,825**	–
	17,627,309	65,700
Net book value, end of the period	**5,978,901**	6,023,218

During the year the Company reviewed the carrying value of certain intangible assets by comparing expected future operating cash flows to the unamortized values of such assets. The Company also considered other factors such as current operating results, future uncertainties with respect to supply of raw materials and change in technology.

As a result of the review, the Company wrote down the carrying value of patents, licenses and other intangibles in the amount of $9,854,169.

9. BANK INDEBTEDNESS

Bank indebtedness at December 31, 1996 represents cheques issued in excess of bank balance and an operating line of credit with respect to Canamino Inc. The operating line of credit is due on demand and bears interest at prime plus 1.25%. The credit limit maximum is $930,000 on the operating line. Collateral on this indebtedness is detailed in note 11.

10. LOANS AND ADVANCES PAYABLE

	1997 $	1996 $
Nuvotech Ventures International Inc. unsecured loan due on demand. Interest at Royal Bank prime lending rate plus 2%.	–	274,010
Advances from shareholders, unsecured and due on demand. Interest at 10% up to June 30, 1996 and non-interest bearing thereafter.	–	50,000
	–	324,010

11. LONG-TERM DEBT

	1997 $	1996 $
Ceapro Inc. Toronto-Dominion Bank loan due June 2002. Repayable interest only until June 30, 1998 and in monthly installments of $20,834 plus interest commencing July 31, 1998. Interest at the bank's prime rate plus 6%.	**1,000,000**	–
Westana Financial Corporation capital lease due February 2000. Repayable in monthly instalments of principal and interest of $9,823. Interest at 34%.	**184,560**	–
Province of Alberta forgivable loan	**98,500**	98,500
Ag-West Biotech Inc. loan	**50,000**	50,000
Canamino Inc. Royal Bank loan due May 1999. Repayable in monthly installments of principal and interest of $90,000 commencing March 1997 to February 1998 and $100,000 from March 1998 to May 1999. Interest at the bank's prime rate plus 2%.	–	2,487,846
Royal Bank loan due February 2000. Repayable in monthly installments of $4,300 plus interest at the bank's prime rate plus 1.5%.	–	155,400
Western Economic Diversification loans, due February 1998 and January 2001. Repayable in quarterly instalments of $120,663 to February 1998 and $102,150 from March 1998 to January 2001. The loans are unsecured and interest free for the entire term. Interest at the Bank of Canada rate plus 3% is payable on any installment due but unpaid.	–	1,829,113
John A. Shaw Associates Inc. The loan is unsecured, non-interest bearing and has no specified terms of repayment.	–	57,500
	1,333,060	4,678,359
Less current portion	**1,072,660**	1,295,438
	260,400	3,382,921

A general security agreement on all present and after acquired property (including the Company's Class A shares of Canamino Inc.) and security interest agreements on trademarks and patents have been pledged as collateral on the Toronto-Dominion Bank loan.

Specific equipment owned by the Company's subsidiary, Canamino Inc. has been pledged as collateral on the Westana Financial Corporation capital lease obligation.

The Province of Alberta has provided the Company with a $98,500 forgivable loan to conduct a feasibility study with respect to the construction of a large scale oat processing facility in Alberta. The loan must be repaid if the feasibility study proves the facility to be viable but the facility is not built or is built outside Alberta.

The Ag-West Biotech Inc. loan was provided to fund a feasibility/business plan for the Company. The loan is repayable once specific commercial products are produced and sold and bears interest at prime plus 2%

11. LONG-TERM DEBT (CONTINUED)

beginning six months after the commencement of commercial production. If commercial products are not developed the loan is forgivable.

A $5 million fixed and floating charge debenture with a fixed first charge over building and a floating charge over all other assets and a general security agreement with specific charge against larger pieces of equipment have been pledged as collateral by Canamino Inc. on the Royal Bank operating line of credit *[see note 9]* and Royal Bank loans above.

At December 31, 1997, the Company was in violation of the terms of its debt covenants with the Toronto-Dominion Bank as its current ratio is not equal to or greater than 1.5:1. Accordingly, the Toronto-Dominion Bank loan is classified with current liabilities on the balance sheet.

As a result of the above violation, the Company entered into a Forbearance Agreement with the Toronto-Dominion Bank on February 13, 1998 whereby the bank agreed to forbear from enforcing its security notwithstanding certain defaults under the terms of the loan agreement. The Forbearance Agreements expired on March 31, 1998. However, the bank has continued to support the Company provided it progresses with a divestiture plan in respect of some of its assets and/or obtains additional financing. The Company is currently exploring alternative sources of financing.

The estimated fair value of long-term debt at December 31, 1996 was $4,328,625.

The effective interest rate of the Company's long term debt is 13.7% at December 31, 1997 (December 31, 1996 - 6.75%).

Principal payments on loans due in the next five years are as follows:

	$
1998	**1,072,660**
1999	**101,768**
2000	**10,132**
	1,184,560
Province of Alberta and Ag-West Biotech Inc. loans	**148,500**
	1,333,060

12. CLASS B PREFERRED SHARES OF SUBSIDIARY

Canamino is authorized to issue 1,300,000 Class B and 1,300,000 Class C preferred non-voting shares and at December 31, 1997 has 1,200,000 Class B preferred shares outstanding. Minimum redemptions of 500,000 and 700,000 shares are required during 1997 and 1998 at prices per share of $2.75 and $3.00 respectively, plus any cumulative dividends in arrears.

These shares entitle the holders to an 11% cumulative dividend. In addition, the holders may elect to receive an additional variable cumulative dividend set at 25% of the after-tax net profit of Canamino; however, for any fiscal year during which such an election is made, the redemption price per share for that year is reduced to $2.

The shares are convertible to Class A equity shares at a rate of 1:1 if all Class B or Class C shares have not been redeemed by the fifth anniversary of issuance or if any variable cumulative dividends are unpaid. In addition, one Class A share will be issued to the holder for every $2.00 of accrued but unpaid quarterly cumulative and variable dividends and outstanding redemption value.

Dividends on Class B shares on the statement of loss and deficit includes $300,000 in accrued redemption premium on these shares plus $264,088 in cumulative dividends for the year.

At December 31, 1997, Canamino was in violation of the dividend and mandatory redemption requirements on the Class B preferred shares as dividends have not been paid within 90 days of when they are due, and

12. CLASS B PREFERRED SHARES OF SUBSIDIARY (CONTINUED)

the minimum redemption of 500,000 Class B preferred shares due in the year was not made. Accordingly, as outlined in note 6, the holder of the Class B preferred shares exercised its remedy to assume 51% of the total voting entitlement attached to the common shares of Canamino.

During the six month period ended December 31, 1996, 100,000 Class B shares were redeemed for cash consideration of $250,000.

The fair value of the Class B preferred shares at December 31, 1996 was $2,943,146.

13. COMMITMENTS

a) The Company has committed to spend approximately $229,000 on research during the fiscal year ended December 31, 1998.

b) Minimum annual payments required under operating leases for office and warehouse facilities and equipment for the next five years are as follows:

	$
1998	89,375
1999	91,660
2000	80,117
2001	72,222
2002	23,456

c) Pursuant to a technology licence agreement, the Company has exclusive rights to certain patents and trade secrets. The license expires on the later of the date of expiration of the last remaining patent or 10 years from the date of first commercial sale of the licensed product which is defined as a calendar month with sales greater than $50,000.

As a condition of the grant of the license, the Company shall contract with the University of Saskatchewan, and effect payment for $500,000 of research and development within 5 years of this agreement of which not less than $300,000 must be before May 1, 1998. The Company and the licensor have reviewed the agreement and are in the process of renegotiating the terms as they relate the funding amount and due dates.

14. CONTINGENT LIABILITIES

a) The Company has guaranteed certain bank indebtedness of Canamino Inc. to a maximum of $4,000,000. At December 31, 1997, the outstanding bank indebtedness totalled approximately $3,128,000.

b) The Company has guaranteed the obligations of Canamino Inc. to pay a royalty under a licensing agreement calculated as the greater of 3% of cumulative annual net sale proceeds (on up to $50 million in sales after which the percentages declines as sale rise) or the following annually:

	$
1998	125,000
1999	150,000
2000 and thereafter	200,000

15. SHARE CAPITAL

	1997		1996	
	Number of shares #	Amount $	Number of shares #	Amount $
Authorized				
Unlimited number of Class A voting common shares				
Unlimited number of Class B non-voting common shares				
Issued				
Class A common shares				
Balance, beginning of the period	**20,223,535**	**18,540,955**	14,170,255	9,618,698
Share exchange pursuant to plan of Arrangement *[note1]*	**(10,111,768)**	–	–	–
	10,111,767	**18,540,955**	14,170,255	9,618,698
Issued during the period for:				
Cash	**600,000**	**615,000**	5,321,076	7,302,144
Exercise of options	**15,557**	**32,403**	–	–
Repayment of debt	–	–	280,000	350,000
Services rendered	**167,651**	**349,625**	57,667	86,501
Acquisitions *[notes 4 and 6]*	**5,289,103**	**16,543,959**	394,537	1,183,612
Share issuance costs	–	**(57,303)**	–	–
	6,072,311	**17,483,684**	6,053,280	8,922,257
	16,184,078	**36,024,639**	20,223,535	18,540,955
To be issued	**41,889**	**62,833**	239,467	309,200
Balance, end of the period	**16,225,967**	**36,087,472**	20,463,002	18,850,155
Special warrants	**800,000**	**4,000,000**	–	–
Total	**17,025,967**	**40,087,472**	20,463,002	18,850,155

The shares to be issued are in respect of the following:

	1997 $	1996 $
Director and shareholder - management fee		
- 200,000 Class A common shares	–	250,000
Board Remuneration		
- 41,889 (1996 - 30,667) Class A common shares	62,833	46,000
Employees in lieu of salary		
- 24,650 (1996 - 8,800) Class A common shares	–	13,200
	62,833	309,200

On January 31, 1997 the Company issued 800,000 special warrants for cash consideration of $4,000,000. Each special warrant entitled the holder to receive one unit comprised of one Class A common share without paying any additional consideration and one-half warrant. Each whole warrant entitles the holder to purchase one Class A common share of the Company at a price of $5.00 until January 31, 1999.

The special warrants were exercisable at any time prior to January 31, 1998 and any special warrants not exercised prior to January 31, 1998 will be deemed to have been exercised, without any further action on the part of the holder, immediately prior to January 31, 1998 *[see note 20 (c)]*.

15. SHARE CAPITAL CONTINUED (CONTINUED)

On October 27, 1997 the Company issued 600,000 units for cash consideration of $615,000. Each unit consists of one Class A common share and one warrant entitling the holder to purchase one Class A common share at a price of $1.25 until October 8, 1999.

In addition, warrants to purchase 111,111 Class A common shares at $2.70 per share were outstanding at December 31, 1997. These warrants expired on January 5, 1998.

At December 31, 1997 the Company had outstanding stock options for 1,689,557 Class A common shares (December 31, 1996 - 2,210,000) at various exercise prices ranging from $1.665 to $6.75 per share and expiring during the period from 1998 to 2002.

16. SALES

Substantially all sales are export sales.

17. RELATED PARTY TRANSACTIONS

Related party transactions not otherwise disclosed in these consolidated financial statements are as follows:

	1997 $	1996 $
Transactions with directors and shareholders		
Legal fees, rent of equipment, salaries and contract services included in general and administrative expense	–	1,365
Research	–	39,026
Consulting fees paid to a director	15,000	–
Loan received from a director and repaid during the year	100,000	–
Interest paid to a director	2,712	–

18. INCOME TAXES

a) The Company has accumulated losses carried forward for income tax purposes amounting to $10,413,972 the benefit of which has not been reflected in these financial statements. These losses may be applied against future taxable income within the limitations prescribed by the Income Tax Act and must be claimed not later than:

	$
1999	86,613
2000	640,233
2001	853,945
2002	1,325,983
2003	3,912,538
2004	3,625,611
	10,444,923

b) The Company has net capital losses of $46,902 which can be carried forward indefinitely to offset future taxable capital gains.

18. INCOME TAXES (CONTINUED)

c) The Company has an accumulated scientific research and experimental development expenditure pool of $777,072 which can be carried forward indefinitely to be applied against future income for tax purposes.

d) The Company has accumulated scientific research and experimental development investment tax credits in the amount of $129,253. These credits may be applied against future federal income taxes payable and must be claimed not later than:

	$
2004	25,574
2005	65,822
2006	37,857
	129,253

19. SUPPLEMENTARY FINANCIAL INFORMATION

Canamino Inc. **Balance Sheet**	**December 31, 1997** $
Assets	
Current	1,827,793
Fixed assets	7,943,278
Patents, licenses and other intangibles	2,914,467
	12,685,538
Liabilities and shareholders equity	
Current	9,076,390
Long-term debt	919,350
Advances from Ceapro Inc.	4,582,712
	14,578,452
Share capital	11,449,418
Deficit	(13,342,332)
	(1,892,914)
	12,685,538

19. SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

Statement of Loss	Year ended December 31, 1997			
	Ceapro Inc. $	Canamino Inc. $	Adjustments $	As reported $
Sales	123,627	2,211,439	–	2,335,066
Cost of sales	22,198	1,831,113	–	1,853,311
Gross margin	101,429	380,326	–	481,755
Other income (loss)	571,252	34,554	(702,861)	(97,055)
	672,681	414,880	(702,861)	384,700
Amortization	48,635	1,950,390	–	1,999,025
Dividends on Class B preferred shares of subsidiary	–	564,088	–	564,088
Interest on long-term obligations	–	386,696	(161,861)	224,835
Interest on short-term obligations	77,031	14,144	–	91,175
Write-down of patents, licenses and other intangibles	15,466,183	–	–	15,466,183
Other	4,188,809	3,591,624	(541,000)	7,239,433
	19,780,658	6,506,942	(702,861)	25,584,739
	(19,107,977)	(6,092,062)	–	(25,200,039)

Statement of Changes in Financial Position	Year ended December 31, 1997			
	Ceapro Inc. $	Canamino Inc. $	Adjustments $	As reported $
Cash provided by (used in) operating activities	(2,045,073)	(2,471,561)	–	(4,516,634)
Cash provided by (used in) investing activities	(21,322,470)	(1,347,579)	4,582,712	(18,087,337)
Cash provided by (used in) financing activities	22,371,876	3,998,645	(4,582,712)	21,787,809
Increase (decrease) in cash	(995,667)	179,505	–	(816,162)

20. SUBSEQUENT EVENTS

a) On February 27, 1998, The Company and its subsidiary obtained an order of the Court of Queen's Bench of Alberta pursuant to the Companies Creditors Arrangement Act to facilitate a restructuring of its unsecured debt. On March 2, 1998, the Company submitted a formal plan of arrangement whereby it proposed to pay its unsecured creditors 100% of the amounts owing in the form of cash as to one third and Class A shares as to two thirds based on the market price of shares in late February 1998 (i.e. $1.25 per share). On March 25, 1998 the unsecured creditors voted to accept the plan of arrangement. On May 26, 1998, an Order of the Court of Queen's Bench of Alberta was issued approving the plan.

b) On March 27, 1998, the holder of the Class B preferred shares of Canamino Inc. issued notice to the Company that it was exercising its remedy to assume 51% of the total voting entitlement attached to the Class A common shares of Canamino Inc. as a result of the default in payment of dividends due in October 1997 and the failure to redeem 500,000 Class B preferred shares as required under the subscription agreement. On May 5, 1998, the holder of the Class B preferred shares formally assumed 51% of the voting entitlement attached to the Class A common shares.

c) On March 27, 1998, the Company issued 800,000 Class A common shares and 400,000 warrants pursuant to the 800,000 special warrants issued on January 31, 1997 *[see note 15]*.

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